Advanced Accounting

Test No. 1

Topics : Underwriting of Shares and Debentures, Accounting for ESOP

Total Marks : 35 **Time: 2 Hours**

Question 1 **(12 Marks)**

A joint stock company resolved to issue 10 lakh equity shares of Rs. 10 each at a premium of Rs.1 per share. One lakh of these shares were taken up by the directors of the company, their relatives, associates and friends, the entire amount being received forthwith. The remaining shares were offered to the public, the entire amount being asked for with applications.

The issue was underwritten by X, Y and Z for a commission @2% of the issue price, 65% of the issue was underwritten by X, while Y's and Z's shares were 25% and 10% respectively. Their firm underwriting was as follows :

X 30,000 shares, Y 20,000 shares and Z 10,000 shares. The underwriters were to submit unmarked applications for shares underwritten firm with full application money along with members of the general public.

Marked applications were as follows:

X = 1,19,500 shares, Y = 57,500 shares and Z = 10,500 shares.

Unmarked applications totaled 7,00,000 shares.

Accounts with the underwriters were promptly settled.

You are required to:

(i) Prepare a statement calculating underwriters' liability for shares other than shares underwritten firm.

(ii) Pass journal entries for all the transactions including cash transactions.

Question 2 **(12 Marks)**

Choice Ltd. grants 100 stock options to each of its 1,000 employees on 1.4.2001 for Rs. 20, depending upon the employees at the time of vesting of options. Options would be exercisable within a year it is vested. The market price of the share is Rs. 50 each. These options will vest at the end of year 1 if the earning of Choice Ltd. is 16%, or it will vest at the end of the year 2 if the average earning of two years is 13%, or lastly it will vest at the end of the third year if the average earning of 3 years will be 10%. 5,000 unvested options lapsed on 31.3.2002. 4,000 unvested options lapsed on 31.3.2003 and finally 3,500 unvested options lapsed on 31.3.2004.

Following is the earning of Choice Ltd:

Year ended on	Earning (in %)
31.3.20X2	14%
31.3.20X3	10%
31.3.20X4	7%

850 employees exercised their vested options within a year and remaining options were unexercised at the end of the contractual life. Pass Journal entries for the above.

Question 3 **(6 Marks)**

a) Define the following terms: (2 Marks)

i) Vesting

ii) Exercise Period

b) Fill in the Blanks: (2 Marks)

i) Underwriting commission for issue of debentures, shall not exceed…………………… percent of the issue price of debentures.

ii) The excess of the market price of the share under ESOS over the exercise price of the option is …………………..

c) What is employee stock option plan? Explain the importance of such plans in the modern time. (2 Marks)

Question 4 **(5 Marks)**

Newton Limited incorporated on 1st January, 2017 issued a prospectus inviting applications for 20,000 equity shares of Rs. 10 each. The whole issue was fully underwritten by Adams, Benzamin and Clayton as follows:

Adams	10,000 shares
Benzamin	6,000 shares
Clayton	4,000 shares

Applications were received for 16,000 shares, of which marked applications were as follows:

Adams	8,000 shares
Benzamin	2,850 shares
Clayton	4,150 shares

You are required to find out the liabilities of individual underwriters.